

Multiple Agency Fiscal Note Summary

Bill Number: 1168 S HB	Title: Self-help housing dev./taxes
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Estimated Cash Receipts

Agency Name	2019-21		2021-23		2023-25	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(992,000)	(994,000)	(992,000)	(994,000)	(992,000)	(994,000)
Total \$	(992,000)	(994,000)	(992,000)	(994,000)	(992,000)	(994,000)

Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other		(427,680)		(427,680)		(427,680)
Local Gov. Total		(427,680)		(427,680)		(427,680)

Estimated Operating Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.4	210,000	210,000	.1	16,800	16,800	.1	16,800	16,800
Total \$	0.4	210,000	210,000	0.1	16,800	16,800	0.1	16,800	16,800

Estimated Capital Budget Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

NONE

Prepared by: Kathy Cody, OFM	Phone: (360) 902-9822	Date Published: Revised 3/20/2019
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Department of Revenue Fiscal Note

Bill Number: 1168 S HB	Title: Self-help housing dev./taxes	Agency: 140-Department of Revenue
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	(496,000)	(496,000)	(992,000)	(992,000)	(992,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	(1,000)	(1,000)	(2,000)	(2,000)	(2,000)
Total \$	(497,000)	(497,000)	(994,000)	(994,000)	(994,000)

Estimated Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.6	0.1	0.4	0.1	0.1
Account					
GF-STATE-State 001-1	200,900	9,100	210,000	16,800	16,800
Total \$	200,900	9,100	210,000	16,800	16,800

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: Richelle Geiger	Phone: 360-786-7139	Date: 03/05/2019
Agency Preparation: Beth Leech	Phone: 360-534-1513	Date: 03/20/2019
Agency Approval: Don Gutmann	Phone: 360-534-1510	Date: 03/20/2019
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 03/20/2019

Request # 1168-3-2

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Note: This fiscal note reflects a revision to the description of the expenditure estimate, and supersedes fiscal note number 1168-2.

Note: This fiscal note reflects language in SHB 1168, 2019 Legislative Session.

Under current law, affordable homeownership facilitators and community groups that assist low-income households with obtaining a home must pay sales and use tax on materials, labor, and personal property and the buyer must pay real estate excise tax (REET).

This bill exempts labor and services rendered by an affordable homeownership facilitator for constructing, repairing, decorating, or improving new or existing self-help housing from sales tax. It also exempts the sale of tangible personal property that becomes an ingredient or component of the buildings from sales tax. The affordable homeownership facilitator must provide the seller with an exemption certificate.

This bill exempts the use of tangible personal property that becomes an ingredient or component of a building used as self-help housing by an affordable homeownership facilitator from use tax.

These exemptions apply if:

- The housing is built to the current building code, and
- Used as the primary dwelling of the initial low-income purchaser for at least five consecutive years.

These exemptions do not apply to housing built for the occupancy of an employee, family member of an employee, or person on the board of trustees or directors of an affordable homeownership facilitator.

Affordable homeownership facilitators that claim this tax preference must provide information regarding the total number of self-help units and the total sales and use that was exempt to the Department on an annual basis.

The following definitions apply to this bill:

- Affordable homeownership facilitator is a nonprofit community or neighborhood-based organization that is exempt from federal income tax under title 26 U.S.C. Sec. 501(c) of the internal revenue code that acts as a developer of self-help housing.
- Low-income means household income as defined by the Department of Revenue (Department), provided that the definition does not exceed 80 percent of the median family income adjusted for family size, for the county in which the property is located.
- Self-help housing is a residence(s) provided for ownership by low-income individuals and families whose ownership requirement includes labor participation.

This bill takes effect on October 1, 2019.

The exemptions from sales and use tax expire on January 1, 2030.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS

- Based on conversations with the construction industry 35 percent of construction costs are for materials and 35 percent are for labor.
- Due to the unpredictable nature of organizations that rely on donations, no growth in the sales tax is assumed.
- The average local sales tax rate is 2.83 percent.

DATA SOURCES

- Internal Revenue Service nonprofit form 990

REVENUE ESTIMATES

This bill decreases state revenues by an estimated \$497,000 in Fiscal Year 2020. This bill also decreases local revenues by an estimated \$216,000 in Fiscal Year 2020.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2020 -	(\$ 497)
FY 2021 -	(\$ 497)
FY 2022 -	(\$ 497)
FY 2023 -	(\$ 497)
FY 2024 -	(\$ 497)
FY 2025 -	(\$ 497)

Local Government, if applicable (cash basis, \$000):

FY 2020 -	(\$ 216)
FY 2021 -	(\$ 216)
FY 2022 -	(\$ 216)
FY 2023 -	(\$ 216)
FY 2024 -	(\$ 216)
FY 2025 -	(\$ 216)

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:

- 30 taxpayers will be affected by this legislation.

FIRST YEAR COSTS:

The Department will incur total costs of \$200,900 in Fiscal Year 2020. These costs include:

Labor Costs - Time and effort equates to 0.6 FTE.

- Set up, program and test computer system changes for a new sales tax deduction and a new exemption application and certificate.
- Create new reporting and tracking reports and modify others as needed.
- Assist taxpayer with the application process and respond to inquiry via phone call, web message, and paper correspondence.

- Examine accounts, perform desk audits and make corrections as necessary.

Object Costs - \$140,800.

- Contract computer system programming.

SECOND YEAR COSTS:

The Department will incur total costs of \$9,100 in Fiscal Year 2021. These costs include:

Labor Costs - Time and effort equates to 0.1 FTE.

- Assist taxpayer with the application process and respond to inquiry via phone call, web message, and paper correspondence.
- Examine accounts, perform desk audits and make corrections as necessary.

ONGOING COSTS:

Ongoing costs for the 2021-2023 Biennium equal \$16,800 and include similar activities described in the second year costs.

Time and effort equates to 0.1 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.6	0.1	0.4	0.1	0.1
A-Salaries and Wages	37,800	5,600	43,400	11,200	11,200
B-Employee Benefits	11,300	1,700	13,000	3,400	3,400
C-Professional Service Contracts	140,800		140,800		
E-Goods and Other Services	6,900	1,100	8,000	1,800	1,800
J-Capital Outlays	4,100	700	4,800	400	400
Total \$	\$200,900	\$9,100	\$210,000	\$16,800	\$16,800

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2020	FY 2021	2019-21	2021-23	2023-25
EXCISE TAX EX 3	56,256	0.1	0.1	0.1	0.1	0.1
IT SPEC 4	70,320	0.1		0.1		
MGMT ANALYST4	63,684	0.3		0.2		
TAX INFO SPEC 4	60,636	0.1		0.1		
Total FTEs		0.6	0.1	0.4	0.1	0.1

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No rule-making required.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1168 S HB	Title: Self-help housing dev./taxes
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Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- ☒ Cities: Revenue decrease
- ☒ Counties: Same as above
- ☒ Special Districts: Same as above
- ☐ Specific jurisdictions only:
- ☐ Variance occurs due to:

Part II: Estimates

- ☐ No fiscal impacts.
- ☐ Expenditures represent one-time costs:
- ☐ Legislation provides local option:
- ☐ Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2020	FY 2021	2019-21	2021-23	2023-25
City	(70,011)	(70,011)	(140,022)	(140,022)	(140,022)
County	(72,770)	(72,770)	(145,540)	(145,540)	(145,540)
Special District	(71,059)	(71,059)	(142,118)	(142,118)	(142,118)
TOTAL \$	(213,840)	(213,840)	(427,680)	(427,680)	(427,680)
GRAND TOTAL \$	(1,283,040)				

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Renee Martine-Tebow	Phone: 360-725-5045	Date: 03/05/2019
Leg. Committee Contact: Richelle Geiger	Phone: 360-786-7139	Date: 03/05/2019
Agency Approval: Alice Zillah	Phone: 360-725-5035	Date: 03/05/2019
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 03/05/2019

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

CHANGE FROM PREVIOUS VERSION:

The real estate excise tax (REET) exemption on the sale of self-help housing to a low-income household by an affordable homeownership facilitator is removed from the bill.

SUMMARY OF CURRENT BILL:

This bill exempts labor and services rendered by an affordable homeownership facilitator for constructing, repairing, decorating, or improving new or existing self-help housing from sales tax. It also exempts the sale of tangible personal property that becomes an ingredient or component of the buildings from sales tax. The affordable homeownership facilitator must provide the seller with an exemption certificate.

This bill exempts the use of tangible personal property that becomes an ingredient or component of a building used as self-help housing by an affordable homeownership facilitator from use tax.

These exemptions apply if:

- The housing is built to the current building code, and
- Used as the primary dwelling of the initial low-income purchaser for at least five consecutive years.

These exemptions do not apply to housing built for the occupancy of an employee, family member of an employee, or person on the board of trustees or directors of an affordable homeownership facilitator.

Affordable homeownership facilitators that claim this tax preference must provide information regarding the total number of self-help units and the total sales and use that was exempt to the Department on an annual basis.

The following definitions apply to this bill:

- Affordable homeownership facilitator is a nonprofit community or neighborhood-based organization that is exempt from federal income tax under title 26 U.S.C. Sec. 501(c) of the internal revenue code that acts as a developer of self-help housing.
- Low-income means household income as defined by the Department of Revenue (Department), provided that the definition does not exceed 80 percent of the median family income adjusted for family size, for the county in which the property is located.
- Self-help housing is a residence(s) provided for ownership by low-income individuals and families whose ownership requirement includes labor participation.

This bill takes effect on October 1, 2019.

The exemptions from sales and use tax expire on January 1, 2030.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

EXPENDITURE CHANGE FROM PREVIOUS VERSION:

The removal of REET exemptions would remove costs for county treasurers.

EXPENDITURE IMPACT OF CURRENT BILL:

This bill would have no expenditure impact on local governments.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

REVENUE CHANGE FROM PREVIOUS VERSION:

The removal of REET exemptions lessens the revenue impact on cities and counties. The change to a sales tax only exemption changes the fiscal analysis.

REVENUE IMPACT OF CURRENT BILL:

This bill would decrease local revenues by an estimated \$216,000 in Fiscal Year 2020 through Fiscal Year 2025. This would be a decrease in

- county revenues of \$72,770 per fiscal year;
- city revenues of \$70,011 per fiscal year; and
- special district revenues of \$71,059 per fiscal year.

ASSUMPTIONS:

- Based on conversations with the construction industry 35 percent of construction costs are for materials and 35 percent are for labor.
- Due to the unpredictable nature of organizations that rely on donations, no growth in the sales tax.
- The average local sales tax rate is 2.83 percent.

METHODOLOGY:

The distributions in this note for cities, counties, and special districts are based on Department of Revenue (DOR) data for local sales and use tax distributions from calendar year 2015 (the most current year available). Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. School districts are also not included in the special districts distribution. This results in a distribution of 34.03 percent to counties, 32.74 percent to cities, and 33.23 percent to special districts. The one percent DOR administrative fee has also been accounted for.

Note: School district impacts, including construction costs, operating costs, levy shifts, and other revenue impacts are described in fiscal notes prepared by the OSPI School District Fiscal Note process. Local Government Fiscal Notes include impacts to all other local governments (cities, counties, special districts).

SOURCES:

Department of Revenue fiscal note
Department of Revenue Local Tax Distributions (2016)
Local Government Fiscal Note program "Local Sales Tax" model (2019)
Local Government Fiscal Note program "Sales and Use Tax Distribution" model (2019)
Municipal Research Services Center